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Author:
Olds, George D. Jr.

Title:
Problems in grocery distribution trends

Place:
[New York?]

Date:
[1930]

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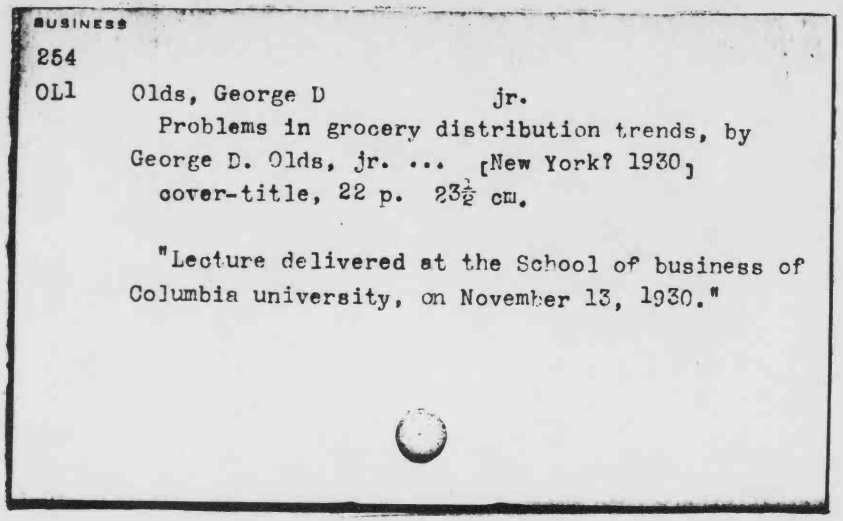

BUSINESS
254
OL1 Olds, George D jr.
Problems in grocery distribution trends, by George D. Olds, jr. ... [New York? 1930]
cover-title, 22 p. 23½ cm.

"Lecture delivered at the School of business of Columbia university, on November 13, 1930."

RESTRICTIONS ON USE:

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FILM SIZE: 35mm REDUCTION RATIO: 12:1 IMAGE PLACEMENT: IA (IIA) IB IIB

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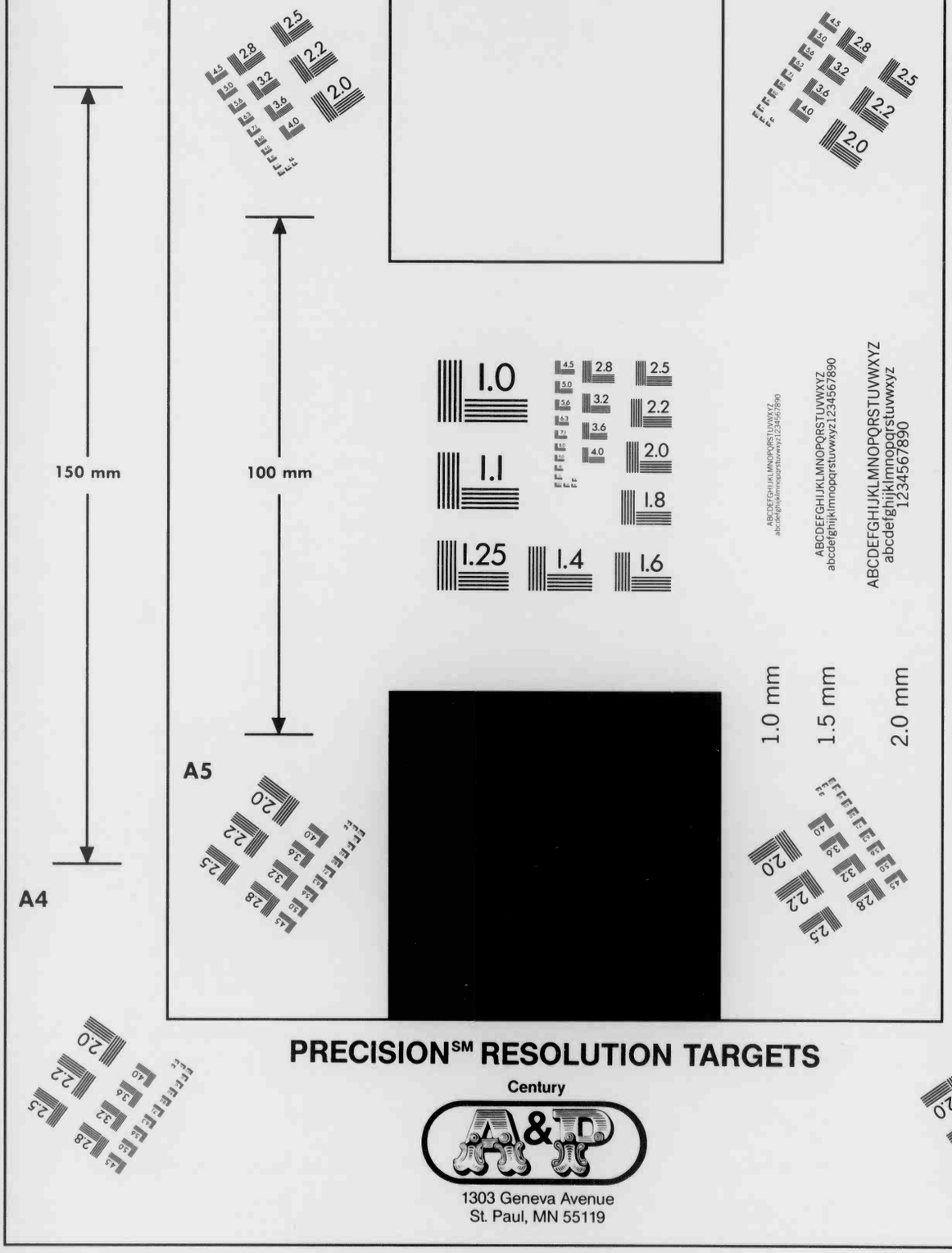

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PROBLEMS IN GROCERY DISTRIBUTION TRENDS

By

GEORGE D. OLDS, JR.

General Sales Manager, The Hills Brothers Company

Formerly President of the Associated Grocery Manufacturers of America

LECTURE DELIVERED AT THE SCHOOL OF BUSINESS OF COLUMBIA UNIVERSITY ON NOVEMBER 13, 1930

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PROBLEMS IN GROCERY DISTRIBUTION TRENDS

A PHOTOGRAPH of the Twentieth Century Limited going at seventy miles an hour or of Hawks flying at over two hundred miles an hour gives no conception of the overpowering speed or the almost inconceivable momentum of these fast moving bodies. It takes the artist who conceives the speed and is deeply impressed with the momentum to give us any conception of these characteristics which are the principal significance of these modern machines.

While a student of distribution of grocery products can hardly aspire to the rank of artist, he must carefully avoid the label of photographer. To picture for you in words the framework of modern grocery distribution as a photographer would show a locomotive would be relatively easy. It would, however, be as uninteresting and unimportant as the old-fashioned stereopticon slide appears today to one accustomed to motion pictures. It is wrong to think of the structure in grocery distribution as static. While we cannot claim to be artists in such a study as this, we find the subject of distribution in foods worthy of discussion only in terms of trends, which, of course, must include some discussion of their causes and possible future.

It is not only true of the grocery industry that the stimulus of the War brought an over-capacity for production which turned the task of the business man into one of the distributing rather than the supplying of grocery products. From this has come a long chain of serious results. To this can be traced the period of falling prices into which economists tell us we are now projected, with all its accompanying price cutting, attempted combinations in restraint of trade, misunderstandings, disrupted trade relationships.

During the War was developed also the denial of freedom to consume. We were told to burn no gasoline on Sundays, to cut down the consumption of meat, to eliminate the use of white flour, and other restraints to strengthen the arm of the Expeditionary Force overseas. With these restraints removed after the Armistice the nat-

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ural reaction was sure to follow. We went into an orgy of over-satisfaction which brought over-consumption so that as a people we fell into extravagant habits. These habits were prolonged beyond the normal by the development of instalment selling. Other habits more directly affecting the food industry and bred by the necessities of the War were those of shorter meals, a smaller use of meat and a very radical reduction in food waste. We could find other major social trends in the tendency to city dwelling with its consequent neighborhood store, small purchase, and reduction of home cooking.

The border line between the social and economic trends is sometimes indefinable. Perhaps a war cataclysm is simply the culmination rather than the cause of industrial inflation. The deflation which has always followed such periods is one which has a major influence on grocery as well as all other distribution. Professor Mills has shown us most clearly how the present commodity price trend is showing signs of paralleling many price movements in past history. It becomes immediately evident how inevitable is such a difficult phenomenon to meet as hand-to-mouth buying when this trend is visualized. Not only is the buyer conscious that the merchandise he must distribute may cost him less if he waits to buy, but also, consciously or unconsciously, he is affected by the probability that if he places a future order the price he pays at the time of delivery will, in terms of the real value of the dollar, be more than that at which he signs the contract.

This period of deflation brings us also against the huge problem of unemployment,—not only the actual but the threatened, which is just as effective as the actual in reducing the will to buy and consume. Only the other day a retail merchant in a Michigan town told of one of his best customers who, while still buying all his groceries from this particular merchant, had reduced the amount of his weekly bill by 50%. His explanation was "I have a family of my wife and six children; I still have a job but all my friends haven't. I don't know whether next month I will have one or not and as long as I am uncertain I am getting along on the least expense possible." So even in foods, usually considered a necessity, deflation can radically reduce consumption, at least measured in dollars.

Nor should we ignore the equally powerful effect of the mechanical age on the distribution of foods. Technological unemployment is, of course, an obvious influence but nowhere near as revolutionary

in the food business as the more direct influences. It is the development of machinery, for example, that has changed the form of consumption of cereal products so that, instead of corn meal, we eat cornflakes, and instead of bread, perhaps, we eat shredded wheat. Without this mechanical development the progress of packaging in huge quantities would have been quite impossible on an economic basis. Add to this the effect on the mind and habits of the consumer of mechanical progress and we have an economic influence of major importance.

Perhaps the most directly and also the most obviously powerful trend that has had far reaching effect on the distribution of grocery products is the combined growth of advertising and packaging. The one would have been practically impossible without the other. Although this will appear again in our discussion for more detailed consideration, it must be mentioned in passing as a development of such huge proportions and such wide ramifications that it is a subject in itself too large for thorough consideration here.

One more economic trend of immense significance to grocery distribution is found in the progress of agricultural skill combined with the opening up of hitherto unproductive lands by irrigation projects and the great strides which have been made in efficiency of transportation. The fact that fresh fruits and fresh vegetables have been found profitably productive throughout the year in such sections as Florida, south Texas, New Mexico, Arizona, California and Washington, coupled with the great progress made in refrigerated transportation, has started the real revolution in home and restaurant menus from breakfast to the evening meal, seriously worrying the canners and opening new fields of profitable interest for merchants who used to deal only in so-called dry groceries.

Through all these social and economic changes has grown up what we can perhaps best describe as a mobile condition of the consumer mind. Fashion, for instance, used to be recognized as a problem mainly in the field of clothing, where its formerly unpredictable and sudden changes were a serious problem. However, one can say quite properly that the serving of fresh food is a fashion which has grown powerful in even the lower income strata of society. The type and place of entertainment of friends have also followed the swings of fashion. I am told that for the past two years the post-war crowding of public restaurants for social entertainment has given way to a

definite swing back to home entertainment, a swing which has begun mainly in the upper middle class of incomes but, like all other fashions, is apt to permeate all branches of the social body.

If we want to find the effect of fashions on food distribution, perhaps less direct but none the less powerful, we only have to examine into the popular panic for the slender figure which, while booming the business in cigarets, whether we like it or not, has at the same time not only switched the demand to different types of food but has actually reduced the total calorie consumption.

Consider also the change in the consumer's choice of expenditure. When she plans her budget it is safe to say that in these days the most attractive selection is in the form of adornment, of amusement, such as the radio and the theatre, and, accompanied by a good deal of social prestige, all the forms of expenditure that go into the automotive industry. The fact that these particular forms of expense have been able to develop instalment methods, where the food industry has actually been forced to proceed in the opposite direction, has acted at least as a temporary spur to the choice of other expenses than those of foods.

When we learn that the number of electric refrigerators in use in the home runs into the millions, we appreciate the power this has to encourage the use of fresh foods. When we learn that over ten million gas cooking appliances are sold in one year, we cannot ignore the extent to which this encourages reduction in the amount of home baking. Add to these strictly domestic mechanical influences the development of the automobile and we readily see how easily the consumer's mind may turn to the cash and carry grocery store and shopping at the chains. The fairly widespread passion and vigorous interest in eating for health and the normal taste whims and demand for novelties that are evident to anyone who gives it a moment's thought are a group of influences which we should be greatly surprised to find were not causing radical changes in consumption of grocery products. Such influences are the primary factors in the changes in distribution.

In popular consideration of distribution economics there has been much use of the word "middleman." The typical consumer knows her retailer in a certain objective way but has a very vague idea of the source of his merchandise. She does not usually see the items arrive. They are simply there on the shelves, replaced in some mysterious

way when she and others have bought. To students of distribution in general, however, there are generic terms that describe middlemen. Still, even here we find certain ill-defined conceptions. The wholesaler is to them a statistical concept, for most have never seen one. He means simply carloads rather than cases. And as for the manufacturer, or, more properly and more typically, the "packager," his ways are shrouded in mystery and even his factory picture has disappeared from his packages.

It may seem strange to you to learn that even to those of us who are daily steeped in grocery distribution the factors that make up the structure of food outlets are continually mysterious and vague. In the category of retailing we find at least nine types. They are the grocery store as it used to be with full credit and delivery service, the cash and delivery store, the cash and carry, the self-service or groceteria, the "store on wheels" which calls at your door, the general store, the mail order house, the department store and the restaurant. Most of these may deal in dry groceries only, or may add meats or fresh fruits and vegetables, or both. They may be individually owned or part of a chain. They may buy through wholesalers or direct from the manufacturer. They may pursue one of these policies today and quite a different one tomorrow. So when we speak of the retailer we can hardly hope to have a clear and standard idea of our subject unless we make it very broad and include every outlet from which a consumer can purchase food.

If "retailer" can mean many things it is still a much more precise term than "wholesaler." Thomas' Register requires no less than twelve definitions to cover all forms of wholesaler in the grocery field. It is unnecessary to go into all of these; but there are nine outstanding types which we run across every day and which differ from each other enough to require separate marketing policies. What is often called the "old line wholesaler" is the type which buys from the packager or his agent in large bulk quantities and distributes to retailers in smaller lots, performs the obvious services of credit and delivery as well as the somewhat questionable service of travelling salesmen. An effort toward economy brought out of this type the cash and delivery wholesaler, with or without salesmen. The cash and carry wholesaler, maintaining neighborhood branches for retailer convenience, or acting as the price-cutting part of an old line wholesale establishment, is a recognized and apparently permanent type also.

Out of this has grown the self-serve wholesaler where the retailer picks out and carries with him his merchandise besides paying cash and doing his own trucking. A scarcer and somewhat more modern type is the "specialty" wholesaler who handles only well known items of packaged merchandise, often confining himself to a very few articles for most of which he is the exclusive distributor in his market. The retailer-owned wholesaler may operate on cash and carry or any other system but in the assumed removal of the need for sales effort he shows quite different kinds of thinking from any others. However much the champion of the chain may tell of cutting out the middleman, the wholesaler, he must nevertheless admit that the functions of storage, breaking bulk and delivery remain and can never be eliminated by his system. It is fair, therefore, to say that the chain-owned is one prominent type of wholesaling just as it is of retailing. We have left, the "wagon-jobber," who sells fast moving items from his truck, calling on the retailer as often as three times a week, and the desk jobber, who takes advantage of the drop-shipment policy of packagers of well known brands to sell by mailed price lists without any investment or risk on his part. To speak of "THE wholesaler" under such conditions is as inaccurate as to imagine that "THE consumer" of today is the same as "THE consumer" of tomorrow.

Is it any wonder, then, that grocery distributors complain of lack of uniformity in the marketing policies of various packagers of grocery products, or even in the policies of any single packager? We can hardly say that there are types of packagers in the method they adopt for distributing their goods. We will find some who sell primarily direct to consumers, to retailers, to wholesalers, to chains. Yet there will be scarcely any who do not, to some extent, carry all types on their books and thus force themselves to adapt their policies to a wide and constantly changing variety. Just at present, as we shall see later, a principal division can be found between those whose interest lies mainly in marketing groceries under their own brand and those who pack under distributors' brands and retain no semblance of their own identity even in the mind of the retailer. Yet few in these categories carry water on only one shoulder. Add to this the fact that many are marketing in the 379 trading areas, often as different from each other as so many foreign countries, which go to make up what is glibly but meaninglessly called the national market, and you have some glimpse into the intricacies of modern grocery distribution.

If I have drawn a picture of complete and almost hopeless confusion I have by no means led you astray. One eminent professor of marketing told me quite recently that he had quite given up hope of any success in reducing distribution costs. I am inclined to share his feeling. On the other hand it so happens that my job includes the necessity of tuning my particular business to the more permanent notes that stand out in the general discord. Consequently, we must first look for the underlying causes of the confusion and then try to single out major trends which give signs of the longest life.

There appear to be three fundamental origins of this confusion. The first of these will be found in the breaking down of one or more types of distributor in the performance of their functions. The retailer, perhaps, failed to adapt his store and his methods to the opportunities for cleanliness, display, customer attraction made possible by modern packaging and store fixtures. Another retailer, more wide-awake, grasped the opportunity to take away the customers of the slower neighbor and opened his second store,—the origin of a chain. Or a live wholesaler, finding his market narrowed or his credit cost increased by the inefficiency of his retail customers, found it safer and more profitable to own his own stores. Chains did not spring full-grown into existence. They started from single stores, becoming chains because of skilled merchandising, not becoming skilled because they were chains. Many a wholesaler, staffed with inefficient salesmen, burdened with merchandise speculatively bought, or torn between his inclinations to sell several different brands of the same item, ceased to be a good distributor for any one brand. The packager had then no choice but to send his own salesmen to the retailers, either to sell them direct or to stimulate their buying from any wholesaler of their choice,—and the wholesaler's complaints grew. "You are selling my customers." The packager failed to adapt his product or its price to the trend of the times, and the distributor looked for a product under his own brand which fitted the requirements as he saw them. Thus the private brand grew.

The second cause of confusion can be found in permanent market changes which have already been touched upon. The growth of advertising has brought attendant changes perhaps the most far reaching of any. There are several other minor factors which have caused overlapping of function and consequent confusion.

The third cause I will state briefly,—the instinct, if we may call it

that, of acquisition which has impelled men to reach out for the obvious profits of others. The wholesaler or retailer sees another distributor nearby making money with apparent ease. He reaches out perhaps beyond his economic area of operations to a marginal area where he may take something from the other man. Or the packager hopes, by marketing direct to the retailer, to obtain the wholesaler's profit. And so it goes until the whole system is deranged and only a few are skillful enough to keep their heads above water.

Now out of this distracting confusion there can be selected certain well-defined and highly significant trends. Today I am going to select four of these for as detailed analysis as the time will permit. These may be called primarily internal to the Grocery Industry. There is a fifth which concerns mainly the external relations, though the answer to the problem it presents is largely internal. This I shall not have time more than to state.

The first of these trends brings no new thought, but can never attract enough discussion. It is the increasing cost to distribute grocery products, more particularly that part of the cost which belongs to the packager. When the Joint Commission of Agricultural Inquiry made its thorough analysis in 1921 some startling facts were brought to light. It was found that in the typical purchase of macaroni the consumer gave 41.5c of her dollar for distribution, of which 11.4c went to the manufacturer simply for cost of selling and profit. In salt the distribution cost was 42.6c, of which 12.6c went to the selling activity and profit of the packager. In cornflakes it was 47.7c for total distribution and 20.1c for the packager. These are remarkably high figures. While no comparable study exists of today's costs we can get from the Harvard studies of 1927 and 1928 some idea of the trend, and from my own more intimate contacts with manufacturers I realize keenly how much the increasing cost disturbs them. The Harvard bulletin, by no means a final answer, nevertheless seems to indicate that, while salesforce and transportation expense have remained almost stationery, executive overhead cost has been inclined to rise slightly and advertising and sales promotion to increase sharply.

If any salesmanager were confronted with the question, What is the cause?, his first answer would probably be, "In a buyer's market it requires more time and effort to sell, and the tendency to small orders raises the cost of getting them." Of course, there is much truth in this if the methods used in a seller's market are simply expanded

for a buyer's. It takes more salesmen and more travel, as well as more executive force to manage them. Met with the demand for lower prices, the seller prefers to substitute so-called "services," at some cost to himself. Finally, he feels the need for the protection of consumer demand which his advertising agency tells him can be obtained only by bigger expenditure in publicity.

It is a fair question whether one of the major factors in the increased cost of distribution is not the protection of inefficiency. Everyone who has run against the wholesaler's private label in the last decade has often seen it used as a means of securing, by concealed inferiority of merchandise, a would-be permanent non-competitive market where the distributor found himself unable to match the selling costs of competitors on well known brands. This is a relatively minor instance, however. Up to this year it has been almost heresy to suggest that the great national advertisers were anything but efficient in their distribution methods. Yet as more recent developments point to a certain weakening of advertising as a club over the distributors' heads many large packagers are finding their system of distribution overloaded with unproductive costs and distressingly vulnerable to the attacks of distributors' selling power.

As a result we are presented with the pressing problems of the economic place of distributors' or other substitute brands, and particularly the converse proposition, what is the economic value of advertising? It is a temptation to plunge into this huge controversy. But since the time is short and others who know far more than I have written books about it without reaching a tenable conclusion, I will pass on. But let me sound a single practical note. A fairly careful analysis of all factors involved indicates that the dollar spent for advertising has declined about 50% in purchasing power during the last ten years. Is it any wonder that the Harvard figure for advertising and promotional effort shows an increase? And is it not entirely pertinent to suggest to the salesmanager who complains of a buyer's market that perhaps his error is in the attempted application of seller's market methods to buyer's market requirements?

The second significant trend may be called the growth of chain distribution. Although 1930 has provided what may be a temporary interruption of this trend its major significance must be recognized. The facts are too well known to require statistical review. Some, however, are important enough to be mentioned. In sixteen years the

number of chain systems has increased 3 1-3 times, the number of stores served 7 times, the dollar volume 8½ times. But more compelling than this are the facts that with only 15% of the total number of stores the chains are doing about 30% of the total grocery business and that the volume per average store of a chain is three times that of the average independent. Parenthetically it must be cautioned that such a comparison is unfair unless we recognize that the average chain, by its very existence, assures high relative efficiency while the same cannot be said of independents, which, of course, simply begs the question.

Maxwell points out the interesting converse relation between the curve of chain growth and that of commodity price decline following 1920. No doubt there is some importance to be attached to this circumstance. It could be equally well contended that packaging of grocery products, which began its main advance about 1910, was the sine qua non of that important earlier period from 1914 to 1920 when many of our prominent chains broke away from the single store. That there is a close parallel between chain growth and the increase in advertising must not be ignored. Moreover, since nearly all chains have developed essentially on the cash and carry plan one must allow the huge expansion of automobile ownership a large share in the promotional job. If we add to these the more incidental causes in the urban trend of population and the quantity price policies of many wholesalers in the early stages and manufacturers in the later, we shall find we have most of the external causes, not so much of chain store existence as of chain store growth.

What started the chain? If you will turn back to the last century you will find the story of a man named Hartford who was successful enough with one store to start a second. He is gone now; but his son is continuing the method and the number of stores is over 15,000. Consult an old gentleman named Bohack and you will hear the story of his first store in the 90's. It is the same with a Mr. Gristede, a Mr. Kroger, a Mr. Skaggs and a hundred others. They were simply more skillful independent merchants than their fellows and took advantage of the times. Today there is much tendency, even for chain store operators, to find in the chain store form the secret of success. Mr. Alvin Dodd of Sears Roebuck pleaded with them at their convention to emphasize the unquestioned fact that it was merchandising skill that made the chains, not simply their form of organization. The

successful progress of many an entirely independent retailer today, surrounded by chains though he be, is mute evidence of the truth of his statement.

The questions of survival of the independent merchant and of price discrimination, both highly controversial, involve a comparison of the costs and methods of the two systems. That does not mean of chain with independent retailer alone but with retailer plus whatever type of wholesaler he may use.

Our best information indicates the gross margin for a skillful cash and carry chain at about 18.5% of sales for the high turnover type to 22.5% for the kind that seeks the larger net and slower turn. We can fairly safely estimate 20.5% as an average gross margin of a skilled operator. This includes, of course, both wholesaling and retailing costs. Self-service chains will show much lower figures but due to special savings open also to the same type of independent. The comparison I am making becomes dangerous at this point; for the chain statistics are of 1928 and those for independents must refer to Harvard figures as far back as 1924 though they have been confirmed in two states as late as 1927. Moreover, the retailer and wholesaler figures are somewhat vague as to type of store. Nevertheless, the comparison can be interesting if not conclusive.

The service wholesaler, according to these figures, adds an average gross margin of 9.15% of the retail price. The retailer on a service basis adds 19.8% or a total gross margin of 28.95%. To make this comparable to the cash and carry chain we must deduct 3.5% for credit and delivery; and to be strictly fair we should also deduct another 4.35% to allow for cash and carry or other non-service wholesale type such as the chain enjoys. This will bring the independent gross margin down to 21.1% of the retail dollar or 6/10 of 1% above our chain estimated average. Here we must guard against the error of comparing an average retailer of a country-wide survey with an arbitrary average between two types of outstandingly efficient chains. If only 6/10 of 1% separates the margins of such we may with some reason expect to find many an independent merchandising at or even below the cost of the chain.

When we analyze the various functions of buying, administration and selling that are involved in the total distribution process the advantages offered by the chain form appear slight. Their size may permit better talent, perhaps more buying information, more flexible

stock, prescribed delivery and better warehouse control. But the retailer can select his wholesale source for skill in these matters and, as we shall emphasize later, cooperation in the independent field can and often does provide many of these advantages even including group advertising. When the standardization necessary to chain operation is considered the independent has a distinct advantage in adaptability to his community. While in the matter of store personnel the chain is severely handicapped. Scarcely any of them have scratched the surface of personnel selection and training. Indeed, the obstacles presented by the necessary dispersion of stores, the requirement of low salary account, and the unusually close relation between a store manager and the consumer that is a necessity, often seem almost insurmountable. Those of us whose business is in offices or anywhere in close proximity to other people are very careful to see that our companions are congenial. Grocery store operators could well bear in mind that the woman who feeds a family is pursuing her business when she buys groceries and is no more unreasonable than any of the rest of us if she withdraws her trade because the store is dirty or the manager unpleasant. So we come back to Mr. Dodd's contention that there is little if any inherent advantage in the chain form. It is not the chain which made efficiency but efficiency which made the chain. On this basis the field is wide open to survival and expansion of the independent. He need merely bring to his work equal skill to have equal opportunity.

Without weakening this statement in the least we must, however, give thought to one complicating factor. Hitherto we have considered only operating costs and methods and found the independent almost better off. The chain, at first glance, has had, for some years, a serious price advantage in the special prices and concessions around which so much controversy has raged. Here is the second major problem, not so much originated as brought into prominence by the chain development. Its right or wrong is confused by arguments on legality, morality, and expediency. The whole question of quantity price, a phenomenon characteristic of all ages and all forms of business, is involved. Not until the economics of price differentials have had much unbiased study will the solution be reached. The Brookings Institution of Washington is about to undertake such a study in the grocery field, apparently the first ever made in this highly important subject.

Section II of the Clayton Act states in effect that no seller may discriminate in price between customers who are in competition with each other; but it permits five exceptions,—on account of differences in transportation cost, in quantity, in quality, and in cost to sell, and "in good faith to meet competition." Legally, I am told, this gives so many loopholes that it has frightened no one and has very rarely been invoked. The question of expediency and morality remain.

Under the head of expediency we can find an interesting line of argument against the price concession. This case contends that such rebates concentrate attention on price when other qualities of a product call for emphasis. Moreover, they are a return to the haggling methods of the bulk merchandise days when values were less definite than in this age of consumer acceptance merchandise. It also holds that the secrecy accompanying price discrimination leads to bad habits of deception that can upset the foundations of business confidence. Perhaps the strongest contention for this side of the case is that the advantage gained by a price concession is only temporary. The competitor will go you one better next time and the give and take will soon bring both sellers to the point of no profit. Then, they say, the chain has the seller in its power. For to lose such a large volume order would endanger his whole business.

The other side would reply to the first argument that other qualities of a product have no value except in terms of price. To the second they would say that, while haggling may at times be annoying, it is not necessarily a bad method of business. To the third they reply that an argument against secrecy is not one against price discrimination. To the last argument they answer that such a blanket statement cannot logically be made. Conditions vary with different chains, different products, different territories. It may be perfectly true that one chain will grasp the opportunity to wield a club over a manufacturer while another may be quite reasonable and cooperative. To support their argument they will contend that a centrally-owned chain gives wide distribution quickly with low sales expense, that this distribution is often equivalent to and usually includes advertising, that the chain form permits lower total cost of getting consumer volume on a packaged product,—in short, that a concession to the chain is nothing but a discount for quantity or for service, or for both. Each case must, they say, be analyzed on this basis and decided on its own merits.

The moral question remains to be discussed. While many of the lofty ideals proclaimed under this banner are shouted most loudly by those whose actual consumer demand is such as to enable them to refuse with impunity the insistence of chain buyers, nevertheless there are many who are in serious and sincere doubt as to the right or wrong of this matter. The argument against the concession boils down to the single point that, whatever the form, amount, or basis of price discrimination, it is unfair to the small dealer, who should not only not be penalized on account of his size but should actually be encouraged. To him that hath shall be given may be a statement of fact but not necessarily of social justice. There is a corollary of expediency also attached to this argument in the anticipation of ultimate chain monopoly if the moral issue be disregarded.

The other side of this picture is divided into two parts. First, is not the manufacturer, large or small, entitled to as much encouragement and protection as the small retailer? I will give you an actual problem from my own experience to illustrate. My company sells Dromedary Dates to all types of buyers. There is no question but that the cost to distribute a case in the amount and by the method characteristic of the average wholesaler, voluntary chains for the moment disregarded, is higher by a considerable amount than the cost via the chain route. This cost is included, of course, in our list price. Now into the field comes a new competitor A. Seeking quick and cheap distribution, he sends his single salesman first to chain buyers. Having no wholesaler-retailer distribution, he has not its cost. By that or some similar amount his cost and his price are lower than ours, other things being equal. My company cannot reduce the price to all buyers, assuming accurate costing. Are we, therefore, morally enjoined from a price reduction to the chain buyer? Must we, because we choose to include the small dealer in our body of distributors, let competitor A take away our chain business, which is the most profitable, and leave us with the other? Are not we entitled to protect ourselves? And if competitor A later decides to take on the task of distribution through independent retailer channels, must he do so without profit because he does not raise his price, or must he make the chain pay the cost of the distribution through more costly channels?

The second phase of the moral justification of price differentials is argued from the point of view of the consumer. If a retail grocer

who has been giving credit and delivery changes overnight to pure cash and carry but takes no account of it in his prices it is safe to say his consumers will leave him almost in a body. The consumer is intelligent enough to demand the savings she makes by performing certain services for herself and she is entitled to them. Many service grocers recognize this by charging less to those who pay cash and take their goods with them. The same theory applies in the case of the retailer who buys from the cash and carry wholesaler. He has saved that wholesaler certain distribution expenses in which he feels he should share largely. Why does not the same argument apply to the buyers who, be they chain or any other type of distributor, make it possible for the packager to market his product at less cost? Is the moral obligation to the consumer and the efficient distributor not just as strong as to the small and, too often, inefficient wholesaler or retailer?

As for the matter of chain monopoly, that threat has been lately removed by the growth in power of efficient independent distribution expressed in cooperative movements; if, indeed, it was ever a threat under the shadow of potential government regulation.

So we see there are very plainly two strong sides to this question of concessions. My insistence that this unsettled matter did not weaken the contention that efficient independents had nothing to fear from chains was based on another trend which has already been mentioned several times,—the trend of distributor cooperation. This became evident first in buying associations of retailers who obtained their supplies at quantity prices through willing wholesalers. As these groups grew they found possibilities of economy in ownership of their own warehouse. Finally, the strongest of them became direct buying, but retailer-owned, wholesalers of high efficiency not only in buying but also in leadership. Their cooperative efforts have resulted in great improvement in store efficiency and have often made possible for a group the advertising which was uneconomic for the single store. There are about fifty such concerns in the United States with very strong evidence of continued success.

Much more startling than the growth of retailer-owned wholesalers has been the spread of the so-called "voluntary chain." Four years ago only one of these showed any prominence. Today the number is reliably estimated at nearly 400 with 55,000 to 60,000 retail members and probably distributing 25% of the total grocery volume. The

voluntary chain is typically a cooperating group of independent retailers organized under written or implied contract to confine their grocery purchases mainly to a single parent wholesaler. In return the wholesaler agrees to provide quantity price, merchandising service and advertising. Usually the stores are all painted and arranged alike and carry identical signs such as "I.G.A. Stores", "Clover Farm Stores", "Red & White Chain Stores". More recently, the anti-chain propaganda has caused these units to avoid much of their earlier chain semblance, but in all except ownership they are patterned as closely as possible after centrally owned chains.

Surprised as most of us were at the rapidity with which the voluntary chain idea spread, we must admit, in retrospect, that such a movement was inevitable. The growth of centrally owned chains wiped out many retailers and wholesalers while it threatened the existence of those who remained. The incentive to necessary wholesaler efficiency was weak unless his market were to be protected by some measure of exclusive control as well as of retailer survival. The chain, against which the movement was directed, provided an ideal pattern for its development. While many local voluntary groups have been organized around the very narrow idea of the wholesaler's own brand development that plan has in many cases proved itself bigger than any single object. Where the men in charge have devoted themselves intelligently to the welfare of the group the results have almost assured permanence. Radical improvements in as many as 15,000 stores in this year alone, together with a developing quantity buying power and a real merchandising policy almost as standardized as that of centrally-owned chains, have all united to build for the chains a widespread string of competitors who are giving them a run at their own game. It is not only the depression year, much less the organized anti-chain propaganda, which has slowed up chain expansion. By the example they set in distribution skill the chains have built up their own obstacles. By all the examples of history this was bound to occur.

Like all major changes this growth of cooperative enterprise has brought its quota of puzzling problems. The usual plan of operation of these groups denies to the manufacturer access to the store owners for purposes of selling. One of the great services they have provided for the retailer is the elimination of the waste of time that used to burden the store which was flooded with salesmen, many of them

duplicating the efforts of others. To the extent that the central office of a voluntary chain is open to the packager's sales effort this becomes really a boon to the salesmanager. However, it introduces once more the question of price discrimination; for, in return for large volume and the possible savings in sales expense which the centralized buying provides, the buyer for the group is universally clever at insisting on concessions from list prices similar to those asked by centrally owned chains. Often the concession is asked in the form of cooperative advertising in which the packager pays for space in the organization's local advertisements. As yet packagers are wary in extending price concessions to voluntary chains, at least until such time as they prove their capacity and sincerity in providing for a packager's brand the same degree of merchandising support at the point of sale as is given by a centrally owned chain. Moreover, there is no distributor more emphatically committed to the development of his own brands than the voluntary chain. Nevertheless, here is the answer to the question of the seeming price advantage enjoyed by chains as competitive to independents. Through cooperation the independent is already finding this one big remaining chain advantage removed.

The impression must not be gained that the cooperative movement in grocery distribution is by any means a permanent proven success. The existing voluntary chains have, for one reason or another, been extremely reticent about their costs of operation. In most of the prominent examples there is a large and expensive national office staff of semi-promotional character. Certain services performed are untried by long use and may turn out to be more costly or less effective than their sanguine originators hoped. Those who are trying to base long range policies on unquestioned fact in the Grocery Industry are withholding final judgment until some accurate and reliable cost figures are published in sufficient number and detail to be convincing.

We have been unable to discuss the major trends thus far without mentioning several times the matter of distributor's brands, commonly known as "private label." In recent attempts to evaluate the distributor's brand it has been found necessary to go deeply under the surface. In the first place, it is seldom that it is either fair or accurate to generalize about this phenomenon. In the second place, it has been found to be merely a symptom of some underlying disturbance. The study of this problem has found the casual maladjustment involved to be definable as our fourth major trend in gro-

cery distribution. I shall call it the shifting of consumer confidence from packager and advertiser to distributor. I should probably say shifting back, for before the development of package groceries, that is in the cracker barrel days, the only object of confidence available was the retailer. Perhaps the apparently unreasoning resistance of the 19th Century groceryman to the growth of packaging and its companion, advertising, was a subconscious revolt against the loss of this confidence as it shifted to the packager. One does not have to be much of an old-timer to recall the persuasion formerly required to make distributors see the profit opportunity in advertised brands.

Yet the growth of packaging, abetted by advertising, gradually switched consumer confidence until it provided the packager with a previously unexampled domination of the stocks and merchandising methods of the distributor. A new philosophy of grocery distribution grew up and became fixed into one of those "illusions of permanence." Within the past few months a large national magazine, dependent, of course, for its survival on the continuation of national advertising, gave a full-page editorial to the subject showing how completely this theory was part of the editors' permanent thought. They contended that the functions of advertising by manufacturer and distributor were sharply differentiated. In the manufacturer's case its sphere, they said, was telling the consumer the merits of a particular product and why it should be bought in preference to others. In the case of the distributor, however, the sole function was to tell the consumer why such products should be obtained at his store rather than elsewhere. Such reasoning has a certain narrowness. In effect, it tells the distributor he is a free agent only in the way he runs his store mechanics, that he may only choose his merchandise as between products advertised. Yet if there is any merit in specializing, in division of labor, there may be some logic in their contention. Still, the main significance of the editorial is in its unquestioned acceptance of the theory that the packager should dominate the distributor's merchandise selection.

For some years now it has been common for advertisers to admit that all they could expect from their expenditure was consumer acceptance, not the demand they would like to achieve. Yet few have been willing to acknowledge that this might be a sort of handwriting on the wall, that there might be a well-defined trend back to distributor domination of consumer confidence. Of course, there remain exam-

ples of the packager's domination such as Campbell's Soup, Quaker Oats, Jello, Kellogg's Cornflakes, Bon Ami; but how many unquestionable cases of such can any of us name at this day? The distributor is becoming conscious of his power. This is not new to the centrally owned chain; but to the voluntary chain and the independent retailer this is a novel and inspiring thought.

The thought has not, however, sprung suddenly into distributors' minds. It has grown through a quite interesting sequence of events. The increasing consumer acceptance of packers' brands brought a steady lowering of those costs necessary to their distribution. The carload quantity became more and more common with its attendant reduction in transportation and bookkeeping expense. Salesmen needed to be little more than order-takers. The tendency grew for distributors to fight for a larger share of a ready-made volume.

Quality standardization of product became increasingly a fact. Inducement to greater volume was thus forced entirely into the price field. Price-cutting by distributors became the principal competitive weapon. If one retailer quotes lettuce at 10c and another at 8c comparison is inconvenient if not wholly impossible. But if the A & P store offers Maxwell House Coffee at 43c it labels that whole system as a lower-priced source of food than the Gristede unit which sells the same brand and size for 45c. The initial effectiveness of price-cutting well known brands was great and easily measurable.

Forced to meet competition, distributors sought means to reduce costs comparably. The cash and carry, the wagon and desk jobbers, many other forms of distributor, were the direct outgrowths as well as the persistent promoters of the price-cutting orgy. Gross margins shrank to such low percentages as to discourage not only the effort of selling but the very willingness to stock the merchandise. Requests for help in a condition often not of the individual distributor's making poured in and still pour in on the packager. The wholesaler and retailer begged for policies of price maintenance, most of which were beyond the packager's legal rights and probably also beyond his power. The alternative request was for special discounts to enable distributors to meet competitors' cut prices and still make some profit. Those who imagine that the chain has been the only seeker or finder of concessions have not sat at a sales executive's desk.

That the distributors should become restive under such conditions was only normal. The surprising fact was their patience. Freedom

from the necessity of handling merchandise at a loss was constantly sought. In fact, escape was so dominating a thought that it often excluded the logical cost reduction which would have made, and has, in fact, made many a wholesaler or retailer capable of merchandising price-cut items profitably. The easiest way out satisfied at the same time the self-esteem of the distributor. His own brand could be built up on many of his products to compete among his customers with packagers' brands and never suffer from price-cuts that would permit easy direct comparison. Moreover, it would open the road by which he could return to the good old days when he, not the advertiser, dominated his customer's choice. If, in this decision, the cost per unit of creating consumer acceptance for a relatively small volume was lost sight of almost completely it was not quickly apparent. For the downward trend of commodity prices was reflected immediately in unbranded packaging while packers' brands were slow to follow. 1930 has accentuated the spread in price thus created to such an extent that distributors' brands and outspoken advocacy of that form of distributor merchandising have taken huge strides forward in the past twelve months. At the same time any extra costs in private brand merchandising have been obscured. It seems to many that we have returned to the old days of distributor domination. Only last Saturday the President of the National Wholesale Grocers' Association was reported to have said "we have entered a period in merchandising in which the distributor is again dominant." That the keener minds in the chain store field and some of the leaders in the voluntary chain movement are thoroughly aware of this situation is shown by many incidents in their merchandising policy. These incidents vary in the emphatic use of their power in trading for better prices or their equivalent with packagers and in their relative pricing of their own and packers' brands in their stores. In some instances a very definite movement is afoot to make the consumer feel that there is greater value per dollar of expenditure in the distributor's own brands.

I wish we could start right here a thorough discussion of the relative merits of distributors' and packers' brands. We should probably find out soon that the differences were not uniform, that the definitions were almost impossible, and that the average consumer didn't even know there were such things. The subject is a huge one and its depths have not nearly been sounded. They will be soon, however, as packagers are awaking to the existing risk to that consumer ac-

ceptance which they have built at such cost. Whether either the distributors' or the packers' brand destroys the other, or whether they live together in harmony, will be settled ultimately in terms of values. While mergers of a group of products of high consumer acceptance may be used as a weapon of defense they can be so only temporarily unless the aggregate intelligence the larger organization is able to muster can find and remove the unproductive costs that go to make up large parts of the higher prices.

So this problem of distributors' brands, which to the distributor is at present no problem at all, is not one which can be solved by crying packers' brands in the pages of advertising media. It is simply a surface irruption which tells of vaguely known internal disorder. All the propaganda which may be employed will simply act as a boomerang until the disorder underneath is defined and corrected.

The realization of the fifth major trend is so recent and so unformed that I shall not try to analyze it. In 1925 the Department of Labor at Washington published an analysis of consumer expenditure in which the average family was shown to use 38.2c out of each dollar of income for food. Preliminary Distribution Census returns for 1929 from four cities show the retail sales of foods through all outlets ranging from 22.2c of the consumer's dollar to a maximum of 29.1c. It is something of a shock to a complacent food distributor not only to find that per capita consumption has decreased, measured in dollars, but that the expenditures for products of the automotive industry are in two cases close seconds and in one case actually 3.3c higher than those for food. To be more exact, of course, the acceleration of commodity price declines in the different expenditure groups should be used to correct these figures in order to obtain the actual reduction in tonnage consumption. The downward trend is, however, strongly indicated. How demoralizing such a drop in consumption in five years could be to an industry I can leave to your imaginations. We need hardly go beyond it in seeking the cause of the present chaos.

So we find a very large number of fundamental conditions which have produced an unbelievable confusion in distribution of grocery products. Out of this confusion emerge five major trends in distribution,—the increase in cost, the growth of the chain, the development of distributor cooperative effort, the transfer of con-

sumer confidence back to the distributor, and the decline in food expenditure. There are many other disturbing problems; but these are enough to keep a few hundred keen, experienced executive minds searching and comparing a good many hours a day. If I have given you some insight into what these minds are up against I have done enough for one day.

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